

**REPORT OF THE AUDIT OF THE  
CUMBERLAND COUNTY  
CLERK**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CUMBERLAND COUNTY CLERK**

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts has completed the Cumberland County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$9,446 from the prior year, resulting in excess fees of \$2,371 as of December 31, 2007. Revenues increased by \$128,653 from the prior year and expenditures increased by \$119,207.

#### **Report Comments:**

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The County Clerk Should Present A Financial Statement To The Fiscal Court By March 15<sup>th</sup>

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



## CONTENTS

PAGE

INDEPENDENT AUDITOR’S REPORT .....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS .....	3
NOTES TO FINANCIAL STATEMENT.....	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11
COMMENTS AND RECOMMENDATIONS .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive  
The Honorable Kim King, Cumberland County Clerk  
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Cumberland County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2008 on our consideration of the Cumberland County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tim Hicks, Cumberland County Judge/Executive  
The Honorable Kim King, Cumberland County Clerk  
Members of the Cumberland County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- The County Clerk Should Present A Financial Statement To The Fiscal Court By March 15<sup>th</sup>

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Cumberland County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

September 10, 2008



CUMBERLAND COUNTY  
KIM KING, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Grants \$ 29,682

State Fees For Services 850

Fiscal Court 5,496

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers \$ 239,873

Usage Tax 356,148

Tangible Personal Property Tax 474,687

Other-

Fish and Game Licenses 4,540

Marriage Licenses 2,201

Deed Transfer Tax 21,953

Delinquent Tax 39,959 1,139,361

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts 12,030

Real Estate Mortgages 11,585

Chattel Mortgages and Financing Statements 23,836

Powers of Attorney 739

All Other Recordings 19,591

Charges for Other Services-

Copywork 2,752 70,533

Other:

Miscellaneous 1,314

Interest Earned 1,464

Total Revenues 1,248,700

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY  
KIM KING, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2007  
(Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 168,763	
Usage Tax	345,434	
Tangible Personal Property Tax	170,810	

Licenses, Taxes, and Fees-

Fish and Game Licenses	4,392	
Delinquent Tax	5,581	
Legal Process Tax	8,858	
Notary Fee	10	
Affordable Housing Trust	15,564	
Miscellaneous	29	\$ 719,441

Payments to Fiscal Court:

Tangible Personal Property Tax	31,976	
Delinquent Tax	3,440	
Deed Transfer Tax	20,855	56,271

Payments to Other Districts:

Tangible Personal Property Tax	252,963	
Delinquent Tax	19,120	272,083

Payments to Sheriff 581

Payments to County Attorney 5,947

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	66,213
Other Payroll Expenditures	2,651

Contracted Services-

Printing and Binding	1,608
Computer Services	100
Indexing	2,750
Library and Archives Grant Expenditures	29,682

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY  
KIM KING, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
For The Year Ended December 31, 2007  
(Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-			
Office Supplies	\$	10,045	
Other Charges-			
Conventions and Travel		1,903	
Dues		700	
Postage		2,019	
Lock Box Rental		20	
Utilities		1,816	
Board of Assessment		300	
Refunds		1,198	
Miscellaneous		717	
Capital Outlay-			
Office Equipment		<u>4,879</u>	<u>\$ 126,601</u>
Total Expenditures			<u>\$ 1,180,924</u>
Net Revenues			67,776
Less: Statutory Maximum			<u>60,958</u>
Excess Fees			6,818
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>847</u>	<u>4,447</u>
Excess Fees Due County for 2007			2,371
Payment to Fiscal Court - March 13, 2008			<u>1,871</u>
Balance Due Fiscal Court *			<u><u>\$ 500</u></u>

\* The County Clerk presented a check to the County Treasurer for the balance due Fiscal Court on August 27, 2008.

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Cumberland County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Cumberland County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 4. Grants

- A. The Cumberland County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$23,758. Funds totaling \$23,758 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2007.
- B. The Cumberland County Clerk received a local records indexing grant from the Kentucky Department for Libraries and Archives in the amount of \$5,924. Funds totaling \$5,924 were expended during the year. The unexpended grant balance was \$0 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive  
The Honorable Kim King, Cumberland County Clerk  
Members of the Cumberland County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Cumberland County Clerk for the year ended December 31, 2007, and have issued our report thereon dated September 10, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Cumberland County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The County Clerk Should Present A Financial Statement To The Fiscal Court By March 15<sup>th</sup>

The Cumberland County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Cumberland County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 10, 2008

## COMMENTS AND RECOMMENDATIONS



CUMBERLAND COUNTY  
KIM KING, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation of Duties Over Receipts And Disbursements

---

During our review of internal controls, we noted that the County Clerk's office lacks adequate segregation of duties over receipts and disbursements. The County Clerk and all deputies collect receipts. The County Clerk and deputies alternate in preparing the daily checkout sheet and deposit. That same person takes the deposit to the bank. The County Clerk posts all receipts to the computerized ledger, which is not printed. The County Clerk prepares all monthly bank reconciliations in the computer however, these are not printed documenting that the reconciliation was performed. County Clerk informed auditor that the computer system would not go back in time to print these reconciliations. No compensating controls are completed on any of these receipt functions.

The County Clerk prepares the majority of the checks for payment and signs the checks. The County Clerk posts all disbursements including payroll to the computerized ledger, which is not printed. The County Clerk and all deputies are authorized to sign checks. If the County Clerk signs the checks only one signature is required. If a deputy signs the checks two signatures are required however, the dual signature can be the County Clerk or another deputy. The County Clerk prepares all quarterly financial reports, delinquent tax reports, deed transfer tax reports, and legal process reports. No compensating controls are completed on any these disbursement functions.

We recommend that the County Clerk segregate these receipt and disbursement duties among employees, implement compensating controls to offset this lack of segregation of duties, and document those compensating controls. We also recommend that the receipts ledger, disbursements ledger, and bank reconciliations be printed monthly and retained for supporting documentation and review.

*County Clerk's Response: I will try to segregate these duties as best we can with available staff. I will also implement and document reviews.*

STATE LAWS AND REGULATIONS:

The County Clerk Should Present A Financial Statement To The Fiscal Court By March 15<sup>th</sup>

---

The County Clerk did not present a statement to the Fiscal Court, which is required by KRS 64.152. KRS 64.152 states "the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the clerk's preceding fiscal year of all funds received by her office in an official capacity or for official services, and of all expenditures of her office, including her salary, compensation of deputies and assistants, and reasonable expenses." The County Clerk did present this statement to the County Treasurer along with a check for her excess fees on March 13, 2008, but did not present the statement to the Fiscal Court.

CUMBERLAND COUNTY  
KIM KING, COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Year Ended December 31, 2007  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The County Clerk Should Present A Financial Statement To The Fiscal Court By March 15<sup>th</sup>  
(Continued)

We recommend that in the future the County Clerk present a statement to the fiscal court by March 15<sup>th</sup> with any excess fee payments.

*County Clerk's Response: I will comply with these regulations in the future.*

